DOCUMENT RESUME

ED 194 293 RC 012 365

AUTHOR Jess, James D.
TITLE School Finance in Rural Education.
PUB DATE 10 Nov 80
NOTE 14p.: Paper presented at the Annual Kansas State University Rural and Small School Conference (2nd, Manhattan, KS, November 10, 1980).

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Educational Finance: Elementary Secondary Education: Equalization Aid: *Federal Aid: *Finance Reform: Foundation Programs: Local Legislation: Low Income States: Property Taxes: *Rural Education: Rural Urban Differences: *Small Schools: *State Aid
IDENTIFIERS Iowa: Kansas: Missouri: Nebraska: *Region 7

ABSTRACT

An overview of the status of rural school financing revealed three major reasons why rural schools are facing major problems in financing today: (1) school reforms have generally failed to address the specific needs of rural and small schools: (2) researchers have failed to recognize small school differences in their collection, classification and analysis of data: and (3) state governments have not faced the complexity of school finance problems in rural districts. Equalization efforts have generally reflected three approaches: high-level foundation, augmented foundation, and district power equalization. The approaches used by the four states in the U.S. Department of Education Region VII (Iowa, Kansas, Missouri, and Nebraska) revealed considerable difference from one state to another, and indicated inadequate efforts to recognize the special funding needs of their smaller rural school districts or to address the unique expenditure problems associated with small size and population sparsity. State and federal school finance laws were seen as needing to be more flexible, with each level of local, state and federal governments addressing financial concerns so that rural school children are guaranteed their fair share of dollars available to education. (JD)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY
James D. Jess

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

ED194293

RC 012285

SCHOOL FINANCE IN RURAL EDUCATION

James D. Jess, Ed.D. (Latimer, Iowa)

Second Annual Kansas State University
Rural and Small School Conference (Manhattan, Kansas)
November 10, 1980

School finance has been and will continue to be one of the major problems that faces rural and small school districts. For state legislatures, school finance was the leading educational issue of the 1970's. The impetus for school finance reform came from State jurist and legislators. In San Antonio v. Rodriguez the Supreme Court ruled that the Constitution does not guarantee education as a fundamental right and left the design of funding systems to State discretion. State courts responded to the issue in quite a different manner. In a series of decisions beginning with Serrano v. Priest in California, State courts found fault with existing financing structures for failing to provide equitable collection and distribution of education aid. This prompted changes in funding structures which ranged from minor alterations to revolutionary new efforts. Equalization efforts generally reflect three approaches: high-level foundation, augmented foundation, and district power equalization. These programs, in theory, are designed to be structured around combinations of the basic components of school finance--district wealth, tax effort, and student need. A brief description of each program is necessary in order to understand how each operates and what each tries to achieve.

High-level Foundation

High-level foundation programs provide for a minimum level of per-pupil support funded through State and local allocations. The local share is raised through property taxes generated at a State mandated rate. State funds fill the gap between local tax revenues and the prescribed minimum level. The degree of

equalization achieved increases as the mandated foundation level is raised, since a larger proportion of district expenditures become eligible for State aid. But disparities can become more prevalent as wealthier districts tax above the prescribed rate. The National Center for Educational Statistics found of the 11 States enacting this type of reform, 7 reduced disparities, 1 State maintained its 1970 level, and in 3 States disparities increased.

Augmented Foundation

An augmented foundation plan focuses on both a district's wealth and tax effort. A guaranteed tax base is created by the legislature and local tax rates applied; the result is a minimum revenue base. State aid is provided to make up the difference between this guaranteed base and funds actually raised by the local tax system. This method provides incentive to increase the local tax rate since State aid increases proportionally. Once again the degree of equalization achieved is contingent upon the level of the guaranteed tax base. A relatively high base provides more districts with equal funds while a low base allows wealthier districts to spend greater amounts.

A percentage equalizing formula is another type of augmented foundation program which attempts to reduce disparity by concentrating on the degree to which State and local jurisdictions share education expenditures. The State determines the percentage of total costs it will support in an average district and then adjusts this figure to each local jurisdiction based on particular need and cost requirements. This adjusted percentage is then applied to total local expenditures to determine the level of State support the area will receive. The degree of equity obtained through this plan depends on two factors: the percentage of expenditures the State agrees to support and the overall expenditures level determined by each local district. The greater the percentage supported by the State, the greater the equity obtained, given equivalent total expenditures. If total expenditures vary significantly, wealthier areas spending more will receive

greater amounts of State aid, and disparity will proliferate. According to the National Center for Educational Statistics 3 of the 6 States using an augmented plan based on a guaranteed tax base or percentage equalization formula have increased disparities.

District Power Equalization

District power equalizing programs guarantee a specific dollar yield for a given tax effort. Districts in which the tax rate fails to provide the guaranteed yield receive State aid up to the guaranteed level. Through the "recapture" provision in such programs, districts whose tax exceeds the guaranteed level must return the difference to the State for redistribution. Expenditure disparities could result if districts reduced their tax rate in order to avoid loosing funds through the recapture provision. The lower tax rate would provide equivalent yield while enhancing the attractiveness of property values in the area, causing wealth disparity. The National Center for Educational Statistics found only 1 State of the 8 States that have enacted this type of reform increased its disparities.

State equalization programs are evaluated by using two different standards: fiscal neutrality and expenditure equalization. Efforts to compensate for differences in intrastate district wealth attempt to achieve wealth neutrality. These reforms adjust fiscal capacity in order to provide that variations in expenditures will reflect differences in tax effort, rather than wealth differences. In contrast, expenditure equalization efforts attempted to reduce disparity in per-pupil expenditures throughout the State. Absolute equality, that is wealth neutrality and expenditure neutrality is virtually impossible to achieve without full State funding. Even then special needs of students (handicapped, bilingual, and economically disadvantaged) and districts (small size, sparsity, and isolation) require special expenditure considerations.

In U.S. Department of Education Region VII each of the four states: Iowa, Kansas, Missouri, and Nebraska has used a different approach to equalization. Iowa was the first State to reform its school finance program in 1971. Nebraska was last with its reform coming after 1977. Each state's school finance system will be briefly explained. Iowa has a high-level foundation program. The State participates in funding 77% of the state average cost per pupil with this proportion to rise 1% per year until it reaches the 80% level. District per pupil costs were established in 1971-72. From 1971-72 to 1980-81 districts who were below the state average cost per pupil were allowed to increase their expenditures up to a maximum of 125% per year, whereas districts whose expenditures were in excess of 110% of the state average cost per pupil were held steady through 1974-75 and thereafter were limited to the State determined economic growth factor that was applied to the state average cost per pupil. Each district is required to levy $5.60 per $1,000 actual property valuation. Property valuations are the only criteria used to measure local ability to support schools. Iowa's state aid program compensates for special education weighting, declining enrollment, and 1/10 of the time that a student participates in a jointly administered program between or among school districts. No special allowances for transportation costs other than the percentage included in the original 1971-72 base cost per pupil are provided. The State guarantees a minimum of $200 per pupil in state aid only if a district's levy of $5.60 per $1,000 valuation which is required for local effort does not raise the entire amount that a district is allowed to spend. A local enrichment levy of up to 10% of the state average cost per pupil can be applied to the district cost if approved by 51% of the voters. The enrichment amount is raised by a combination local property tax levy and state income tax surcharge. To date, Iowa's school finance plan has not been challenged in the courts.

The Kansas Equalization Act of 1973 used the district power equalization approach. A district is guaranteed a yield of an approved cost per pupil when its local contribution is 1.6% of its wealth, adjusted for the relationship between its cost per pupil and a normed cost for its enrollment category. A four year average of adjusted property valuation (based on 30% of true market value in money) and resident taxable income in the district is used to measure local ability to support schools. Every district receives 20% of resident individual income tax liability. Beginning in 1979-80, 90% of this amount is treated as an element of local effort in the general aid computation. Pupil count is total FTE enrollment. Federal impact aid is included in the state aid formula. The Kansas state aid program compensates for special education, bilingual education, declining enrollment, and a higher budget per pupil in low enrollment districts. All districts transporting pupils living 2.5 miles from school or more receive 100% of actual cost per pupil or 100% of the amount per pupil computed under a cost density formula, whichever is less, multiplied by the number of transported pupils. A minimum 6% increase in budgets are allowed. Budget appeal process is available for special programs. Three separate court cases have been filed in Kansas since 1973 which have challenged the Kansas finance plan.

The State of Missouri has an augmented foundation program which establishes a per pupil foundation level and a required local effort of 16.9 mills (based on 33 1/3% of true cash value in money) plus 57% of tangible taxes and 57% of fines, forfeitures, and escheats. The guaranteed tax base is $37,361 per pupil, a level which includes 87% of students. A 2/3 vote is required for levies above 37.5 mills. Seventy-five percent of the foundation level must be spent for teacher salaries. A new law passed in 1977 replaces the old school finance system; funding is being phased in over 4 years. A rollback amendment modifies the Constitution to allow the legislature to roll back mill levies in the event

of statewide reappraisal. The Missouri state aid program compensates for special education and compensatory education. The prior year student count is used for computing budgets. No compensation is allowed for sparsity or small schools. Eighty per cent of allowable costs of transportation of eligible students is reimbursed by the State. State aid per pupil increases are limited to 25% of the difference between the aid calculation and the previous year's aid. A 1975 Court case challenging unequal property assessments was pending in Missouri as of June 1980

Nebraska's equalization approach is a foundation program that provides $17.50 per pupil in ADM in Kindergarten, $35 per pupil in grades 1-6, $42 in grades 7-8 and $49 per pupil in grades 9-12. Required local effort is 18 mills (based on 35% actual value) for K-6, 8 mills for K-8, 5 mills for 9-12. Approximately 197 districts qualify for equalization aid. Minimum levy requirements are 18 mills (K-6), 8 mills (K-8), and 5 mills (9-12). The measure of local ability to support schools includes property valuations per pupil plus certain accountable receipts, i.e. tuition, state apportionment, insurance premium tax, fines and licenses, and transportation receipts. The Nebraska state aid program compensates for the State determined basic needs of students at various grade levels which are translated in dollars (K=$225, 1-6=$450, and 7-12=$550 per ADM). Equalization aid provides the difference between program costs based on assumed needs and the amount of funds raised locally. Additional state aid compensation is provided for gifted pupils, culturally and educationally deprived pupils, and anywhere from 10 to 40% addition in the basic need calculation for each district which has less than 4 persons per square mile. Districts receive additional weighting of .25 for students who live more than 4 miles from school. This transportation reimbursement is made only to those districts that qualify for equalization aid. Flat grant incentive aid according to degree level of teaching staff and students attending summer school programs are also available. To date no court case has been filed in Nebraska against its system of school finance.

The four state programs described above differ considerably from one state to the other. The National Center for Education Statistics reported that from 1970 to 1977 Iowa, Kansas and Missouri had all experienced a decrease in their within-State disparities in per pupil expenditures under their school finance reforms, whereas Nebraska's disparities had increased during that seven year period. It must be pointed out though that Nebraska had not yet undergone its school finance reform during that period. States in rank order from low to high within-State disparities in 1977 found Iowa to be the third lowest in the nation, Kansas seventeenth, Missouri thirtieth, and Nebraska forty-ninth. Ninety-six percent of Iowa's 449 school districts in 1977 had per pupil expenditures between $1,200 to $1,799 with a state median expenditure of $1,483. Nebraska on the other hand had its district per pupil expenditures spread somewhat evenly from under $800 to over $2,600 with a state median of $1,481.

A conclusion drawn from a study done by the National Conference of State Legislatures in 1976 was that to date, "it appears that rural districts characterized by low property wealth and low income have been significantly aided by school finance reforms in the 1970's. Other kinds of rural districts, such as those found in prosperous farming areas in the Midwest, do not seem to have reaped many appreciable benefits through these reforms." It appears as though Iowa and Missouri have done little to recognize the special funding needs of their smaller rural school districts whereas Kansas and Nebraska have made some attempt in their funding programs to address the unique expenditure problems associated with small size and population sparsity. The two extremes in Region VII are Iowa which has put a great deal of effort into equalizing per pupil expenditures and property wealth disparities throughout the State and Nebraska which has tried to equalize tax efforts, but has been careful to recognize special funding requirements of its smaller rural districts.

The four states of Region VII are situated in the approximate geographical center of the United States. Long known as the "breadbasket" of America, the states of Iowa, Kansas, Missouri and Nebraska are comprised primarily of small rural communities which serve as trade centers for the neighboring farms and ranches. Within Region VII, the small rural school is as much a part of the tradition and heritage as the land itself. Region VII's rural population (All farms, open countryside and places of less than 2,500 residents, both within and outside of SMSA's) is considerably above the national average. Thirty-five percent as compared to 26.5% nationwide. Of the 2,419 school districts within the region almost half 2289 have a total district enrollment under 300 pupils and 81.9% have an enrollment under 1,000 pupils. In fact, Region VII has over one-fourth (27.7%) of the total school districts in the United States with enrollments of under 300 pupils. While 928 of these 1,189 school districts are in the State of Nebraska, Missouri has 167, Kansas 51 and Iowa 43. In addition, Region VII has 793 (18.9%) of the 4,187 school districts in the United States with total enrollments from 300 to 999 pupils. Nearly all, if not all of these smaller enrollment rural districts are located in rural areas with populations of fewer than 2,500 residents in their communities and surrounding open countrysides. Although equalization is a noble cause of school finance reform, the uniqueness of rural schools and rural communities can not and should not be destroyed in the process.

Jonathan Sher addressed the agony and the equity of financing America's rural schools in a legislator's handbook he prepared for the National Conference of State Legislatures in September 1978 entitled, Revitalizing Rural Education. Sher writes that current debates about rural education focus on tax rates, funding formulas and other financial considerations as often as they focus on more purely educational concerns. The emphasis on educational revenues and resources, he says, is the consequence of the clash among three major trends in education: (1) The expansion of both the range of services that schools are

expected to provide and the constituencies they are to serve. (2) The trend toward retrenchment. The hallmark of retrenchment being decline--the decline in enrollments, public confidence in schools, and willingness to pay more taxes. There is growing support for the notion that governmental services of all kinds (including education) can, and should, be made more economical and more efficient. (3) The push toward equity in educational finance. The effects of all three of these trends have certainly been felt by rural schools and school districts across the country. Yet, many state legislatures have not responded to the unique financial problems and needs of their state's rural communities. Few statewide studies have been conducted which accurately assess the effects of various school finance reforms on rural schools and districts. The issues that legislatures must deal with according to Sher are sources of revenues, the inherent cost of rural schools, and the distribution of educational revenues.

Ensuring equity for rual schools and districts requires that legislators be sensitive to the unique financial constraints under which these units operate. As Rachel Tompkins noted in "Coping with Sparsity: A review of Rural School Finance:"

> The general policy framework for state school finance should be governed by the goals of adequacy, stability, equity, and flexibility. Each child should be provided with adequate resources to learn, regardless of the child's place of residence. The finance system should provide school districts with predictable and stable levels of resources. Equity requires that differences in the level of dollars per pupil among districts should be based on differences in the educational needs of children and not on the accidents of property wealth and income level. Finally, finance plans should allow local districts the flexibility to develop educational programs most suitable to community needs.

The nine rural school finance alternatives which Sher feels state legislators should consider are as follows:

(1) Assume an increased proportion of total educational costs.

(2) Distribute state aid on the basis of need rather than equal dollars per pupil.

(3) Pay extaordinary energy costs, transportation costs and capital expenditures with state funds.

(4) Establish state sparsity payments for isolated rural school districts.

(5) Inaugurate a system of differential assessments of property for tax purposes.

(6) Prevent the passage of legislation which mandates or encourages school district reorganization.

(7) Enact legislation which requires new state mandates for education to be accompanied by the state funds necessary to implement them.

(8) Require the state education agency to distribute federal funds it controls in an equitable manner.

(9) Establish a system of school-site budgeting.

Looking at revenue receipts of public elementary and secondary schools, by source, the National Center for Education Statistics reported that in 1978 the federal government contributed 8.1%, state governments contributed 44.1%, and local governments contributed 47.8% to the cost of education nationwide. The National Education Association Research Memo for 1979 gave the following 1978-79 ranking of states for estimated revenue receipts from federal, state, and local governments in Region VII.

	Federal	State	Local
IOWA	5.8%	38.9%	55.3%
KANSAS	12.2%	46.7%	41.1%
MISSOURI	10.8%	36.2%	53.2%
NEBRASKA	6.9%	16.8%	76.3%

This information shows that the State of Kansas is least dependent on local property tax support for education, whereas the State of Nebraska is the most dependent on local support. Kansas and Missouri receive the greatest amounts of federal aid to education with Kansas receiving over twice the percentage amount that Iowa receives. The information also indicates that in Region VII,

except in Kansas, there remains a heavy reliance on local effort to support the total state cost of public elementary and secondary education. Although unable to document this claim, because data collection procedures prevent one from doing so, a ciritical analysis of rural school funding sources in Region VII would indicate that most small districts (especially those with enrollments below 300) have a much greater dependency on local support than the state average figures would lead us to believe. This claim is based on the fact that a large percentage of rural school districts in Iowa, Kansas, Missouri and Nebraska tend to have higher than state average property valuations and lower than average pupil enrollments. A combination that works against most rural schools in state equalization formulas. Particularly, in those states that have made a strong effort to equalize statewide expenditures, district wealth and tax effort.

It is a responsibility of rural school administrators to point out to state legislators why rural and small school districts face major problems in school finance. It is also important that they be able to explain where changes are necessary in state school finance laws so that the unique funding needs of rural schools can be met. Reasons why rural schools are facing major problems in school finance today are:

(1) School finance reforms have generally failed to address the specific needs of rural and small schools. Natural conditions associated with small size, population sparsity, rural isolation, and rural diversity are often ignored or inappropriately addressed.

(2) There has been a failure on the part of researchers to recognize small school differences in their data collection, classification and analysis which has perpetuated the problems in rural education finance. Research results and comparisons are often misused for the purposes of developing new educational policy and for interpreting old policies.

(3) State governments have tried to develop simple answers to the complex problems of school finance. The fact that providing services in rural communities is generally more costly than in the cities is a fact of ruralism that government efficiency experts do not like to accept. The fact that smaller rural school districts will have different spending patterns from those of larger urban school districts is yet another fact that is poorly accepted.

State school finance laws, if they are to meet the needs of both rural and urban communities, must be flexible enough to allow school districts to develop and support quality educational programs best suited to their local situations. The laws must recognize that differences do exist between small schools and large schools, rural schools and urban schools. The laws must allow schools to build on their strengths and give them the incentive to correct their weaknesses. Rural communities have traditionally had a strong sense of ownership and control over their schools. The positive relationship between rural schools and communities must be preserved, as well as nurtured. The importance of schools to small towns must be recognized as a critical component in the future development of a strong and viable rural America. The political battles between rural verses urban constituencies must be laid to rest in a bipartisan effort to develop school finance laws that meet the education needs of all children, regardless of their place of residence. America needs the diversification of a healthy urban and rural society. One which provides an overall educational system that prepares people for a smooth transition of mobility from one area to the other. The American dream of "freedom of choice" must remain foremost in the minds of people who are responsible for developing and implementing school finance laws. This freedom of choice carries with it the right, as well as the responsibility, of government to provide the type of educational systems that best fit local

community needs and circumstances. Higher levels of government should not impose unnecessary pressure on local communities that force them to accept a system of education that is contrary to their beliefs and one that is not necessarily in the best interest of their state and the nation.

The problem of rural school finance must be solved at the state and local levels of government. The role of the federal government in rural school finance should be to respond to special needs and problems of America's rural schools without diminishing the responsibility for education which is reserved to the states and local school systems. The federal government is in a position to provide networks for communication, technical assistance, research information and financial support for programs that will supplement the basic programs in rural education. The federal government has a responsibility to ensure that small and rural schools have equal opportunities to successfully compete for federal funds and that rural set asides are available in every state so that rural school children are guaranteed their fair share of the federal dollars available to education.